BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 09/16/13

EMBARGO: Not for publication or broadcast before 1500 hours on Friday, 30 September 2016

MONETARY AND FINANCIAL DEVELOPMENTS
August 2016

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), was higher at 1.5% in August (July: 1.1%). The *transport* category recorded a smaller price decline of -6.7% (July: -9.9%) on a year-on-year basis due mainly to base effects from the reduction in domestic fuel prices in August 2015. Inflation in the *recreation services and culture* category was also higher at 3.6% in August (July: 1.7%) due largely to the increase in satellite television service charges.

Monetary Conditions: Interbank rates for all tenures continued to moderate whilst the weighted average base rate (BR) of commercial banks remained steady at 3.60% as at end-August (end-July: 3.62%). The weighted average lending rate (ALR) continued to moderate to reach 5.28% in August (July: 5.31%). Net financing to the private sector registered an annual growth of 6.3% in August (July: 6.8%). The slower growth in net financing was driven mainly by the continued moderation in the growth of loans extended by the banking system and development financial institutions (DFIs). Net outstanding corporate bonds however, registered stronger growth during the month, in line with higher issuances for working capital and infrastructure projects. The annual growth in outstanding business loans of the banking system was lower at 1.9% during the month (July: 3.7%), mainly reflecting the effect from the high base in August 2015 and large one-off loan repayments by a few of the domestic businesses. On a month-on-month basis, the level of loans disbursed to businesses in fact increased, with a larger volume of loans

extended to the *wholesale and retail trade, and restaurants and hotels; manufacturing;* and *transport, storage and communication* sectors. In particular, both the level and annual growth of loans disbursed to SMEs improved during the month. For households, outstanding loans of the banking system grew at a stable pace of 5.7% in August (July: 5.7%), with the outstanding loans for the *purchase of residential property* recording a stable growth of 10.2% (July: 10.2%). The level of loan applications and loan approvals increased during the month for both businesses and households. On an annual basis, broad money (M3) growth increased slightly to 2.4% in August (July: 2.3%) driven mainly by the continued extension of credit to the private sector by the banking system and the increase in net foreign assets. The expansion, however, was partially offset by *other influences*, reflecting the issuance of equity by banks and the reclassification of Islamic Investment Accounts.

Banking System: The banking system maintained strong capitalisation. The Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio stood at 13.4%, 14.3% and 16.8% respectively. Net impaired loans accounted for 1.3% of net loans while loan loss coverage ratio stood at 89.6%. Taking into account regulatory reserves for loans and financing, banks maintain sufficient buffers for potential credit losses.

Exchange Rates and International Reserves: In August, the ringgit exhibited a mixed performance against the currencies of Malaysia's major trade partners. The ringgit appreciated against the US dollar throughout most of the month as broad increase in global crude oil prices led to portfolio inflows towards commodity exporting countries, including Malaysia. This appreciation trend, however, reversed towards the end of the month following portfolio outflows from regional financial markets driven by expectations of a US interest rate hike in September. The international reserves of Bank Negara Malaysia amounted to RM392.5 billion (equivalent to USD97.7 billion) as at 15 September 2016. This level remains ample to facilitate international

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

transactions and is sufficient to finance 8.1 months of retained imports and is 1.2 times the short-term external debt[1].

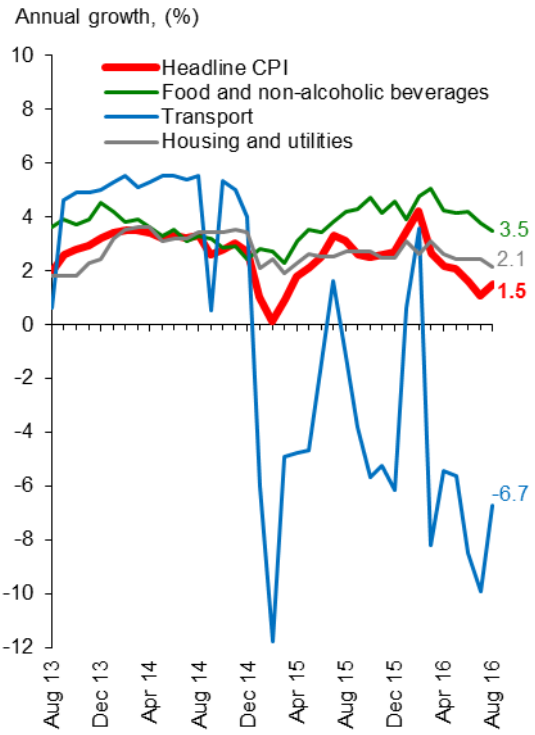
Bank Negara Malaysia
30 September 2016

[1] Refers to the redefined short-term external debt, which includes short-term offshore borrowing, non-resident holdings of short-term ringgit debt securities, non-resident deposits with the banking system and other short-term debt. For more information, please refer to the box article titled 'The Redefinition of External Debt' in the Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2014.

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

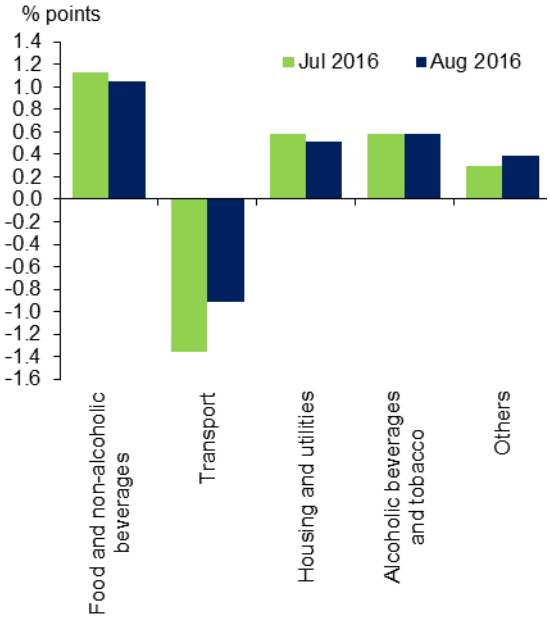
Higher headline inflation in August

Headline Inflation



Source: Department of Statistics Malaysia

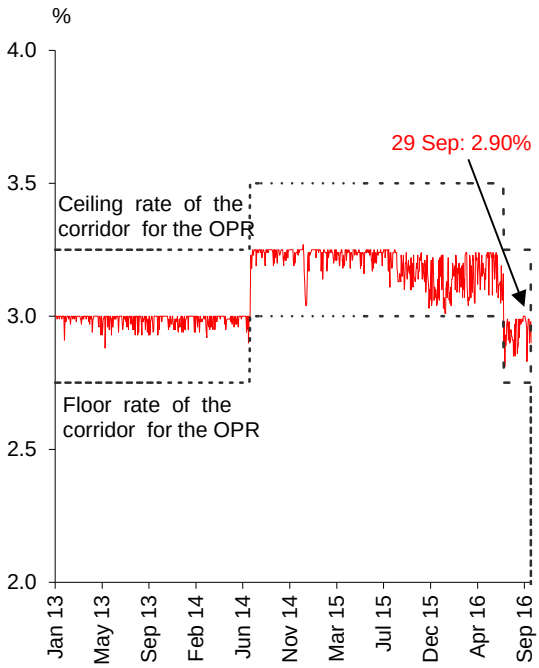
Headline Inflation: Component Contribution



*Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear;* and *miscellaneous goods and services*
Source: Bank Negara Malaysia

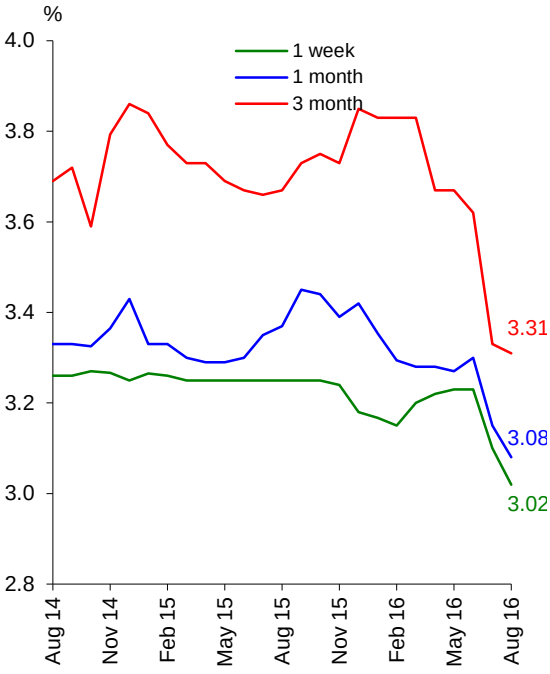
Interbank rates continued to moderate in August

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

Average Interbank Rate

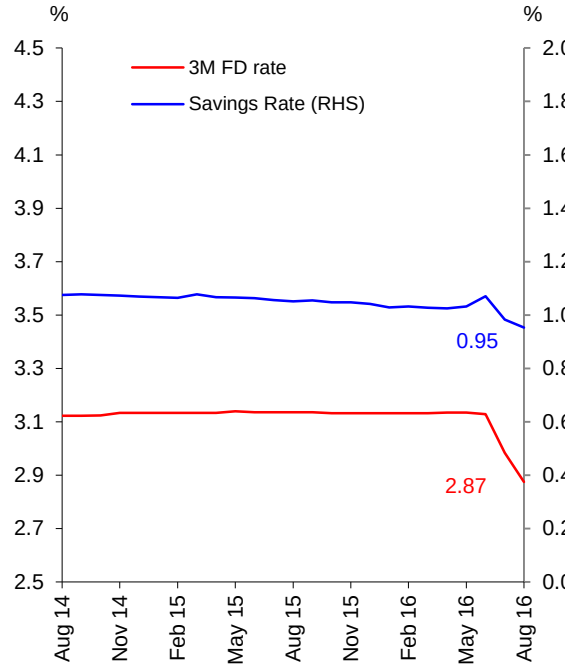


For periods where no trade took place during the month, the last traded interbank rate is used

Source: Bank Negara Malaysia

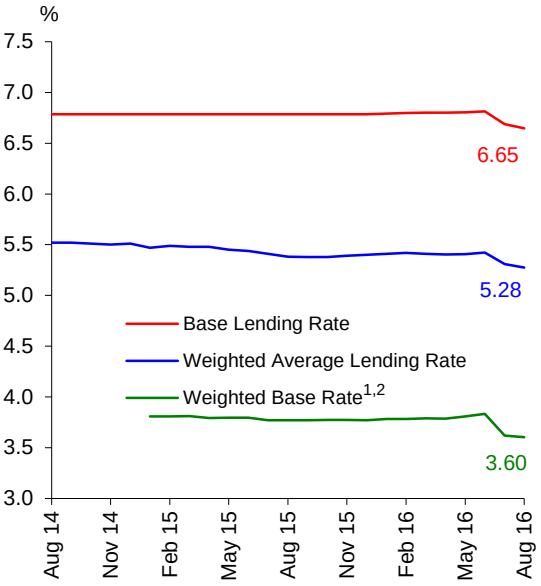
Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

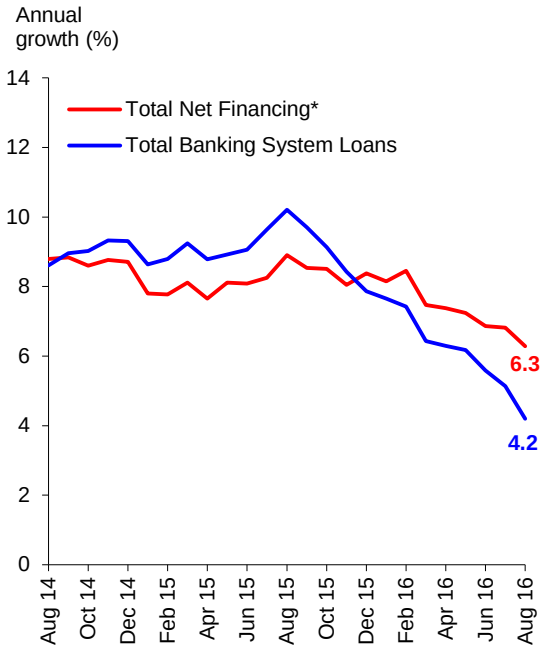


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
[2] Weights are based on individual banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia

Growth in net financing moderated in August

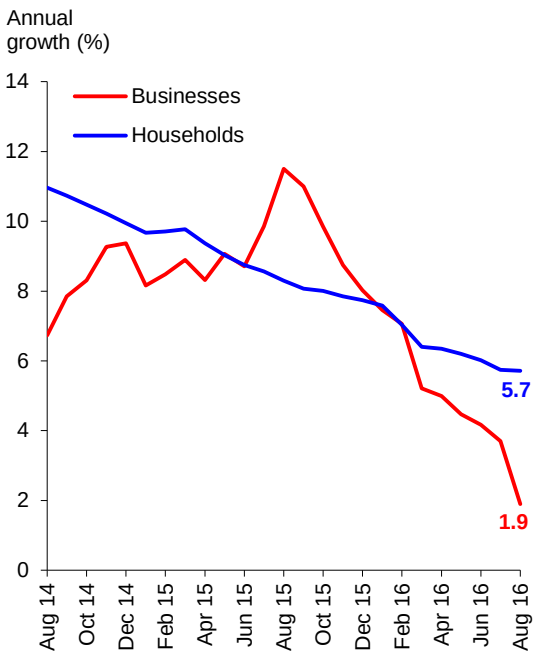
Net Financing and Loan Growth



* Net financing comprises banking system and DFI loans, and corporate bonds outstanding (excluding non-residents and Cagamas)

Source: Bank Negara Malaysia

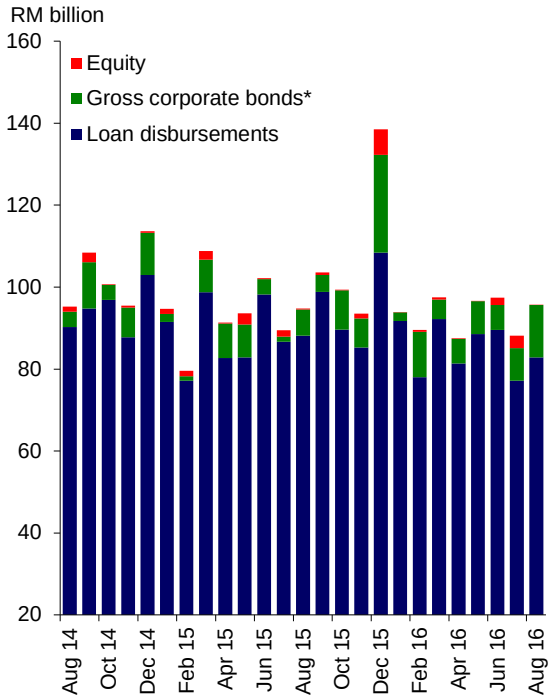
Outstanding Loans of the Banking System



Source: Bank Negara Malaysia

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

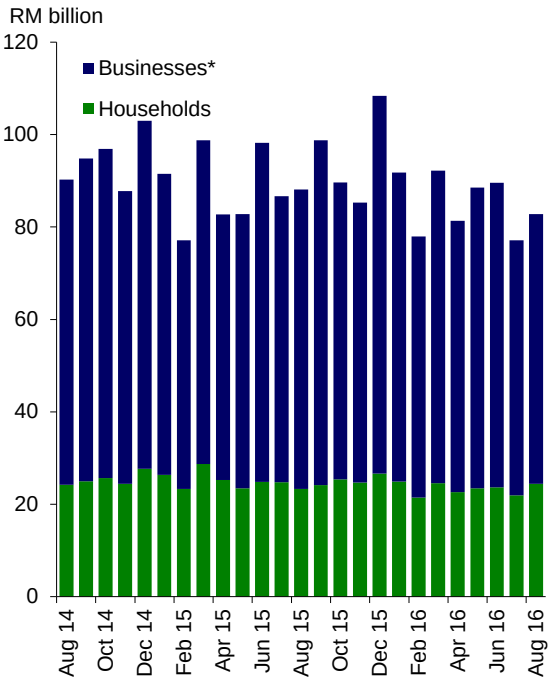
Gross Private Sector Financing



* Excludes foreign issuances

Source: Bank Negara Malaysia

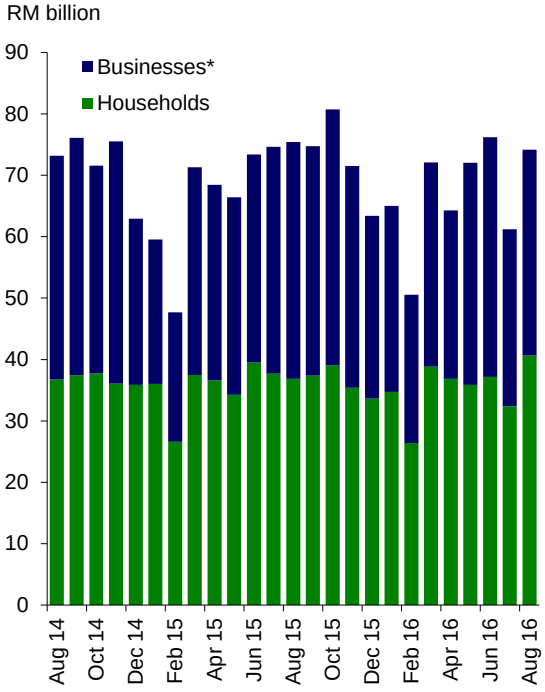
Loan Disbursements by the Banking System



* Includes domestic financial institutions, Government, other domestic entities and foreign entities

Source: Bank Negara Malaysia

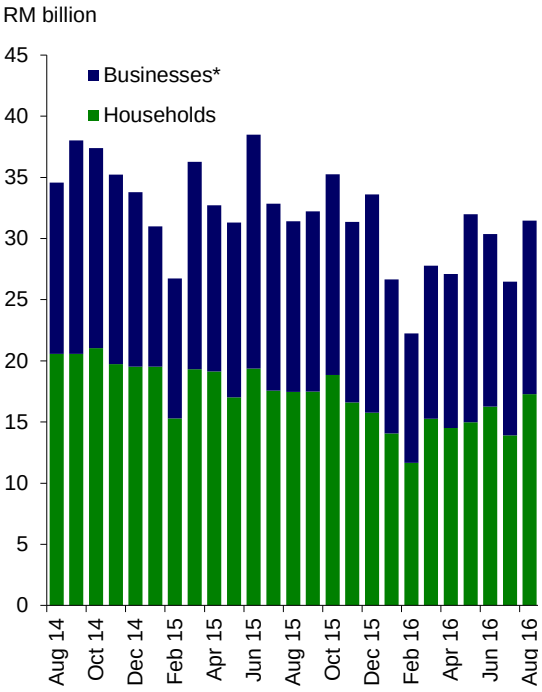
Loan Applications to the Banking System



* Includes domestic financial institutions, Government, other domestic entities and foreign entities

Source: Bank Negara Malaysia

Loan Approvals by the Banking System



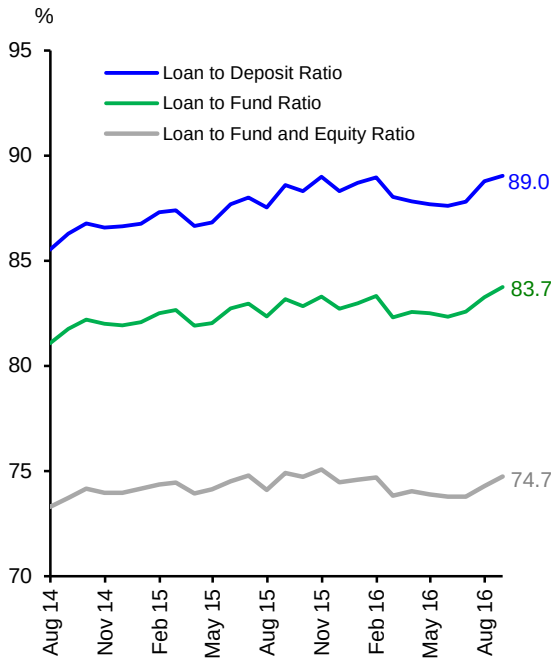
* Includes domestic financial institutions, Government, other domestic entities and foreign entities

Source: Bank Negara Malaysia

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

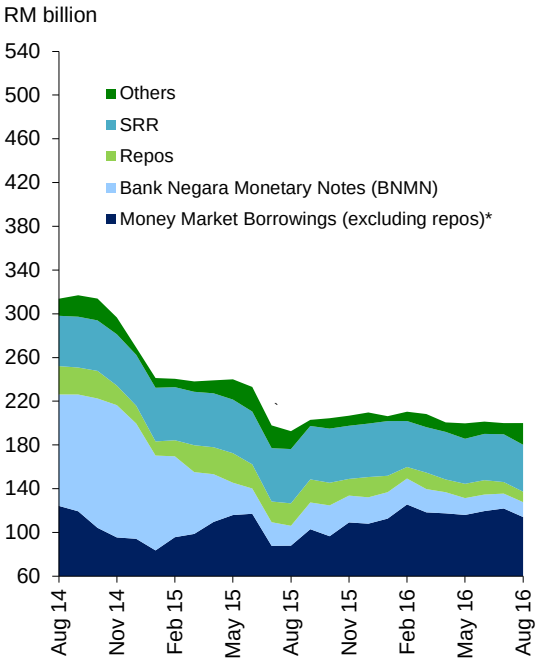
Liquidity in the banking system remained ample

Loan to Deposit, Loan to Fund and Loan to Fund and Equity Ratios



Note: From July 2015 onwards, loans exclude financing funded by Islamic Investment Accounts
Source: Bank Negara Malaysia

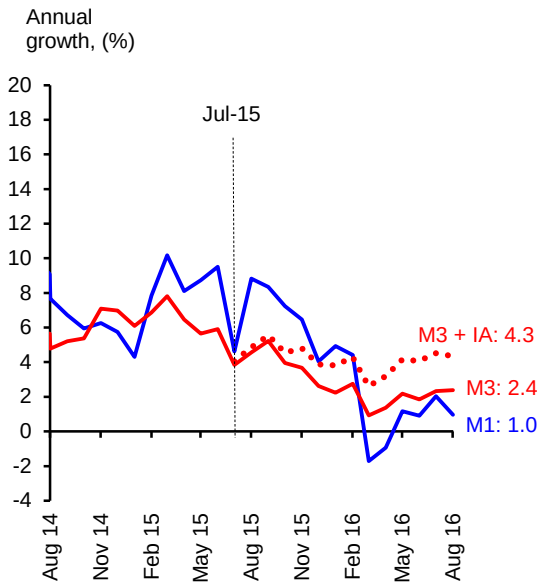
Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)



* Money Market Borrowings (excluding repos) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)
Source: Bank Negara Malaysia

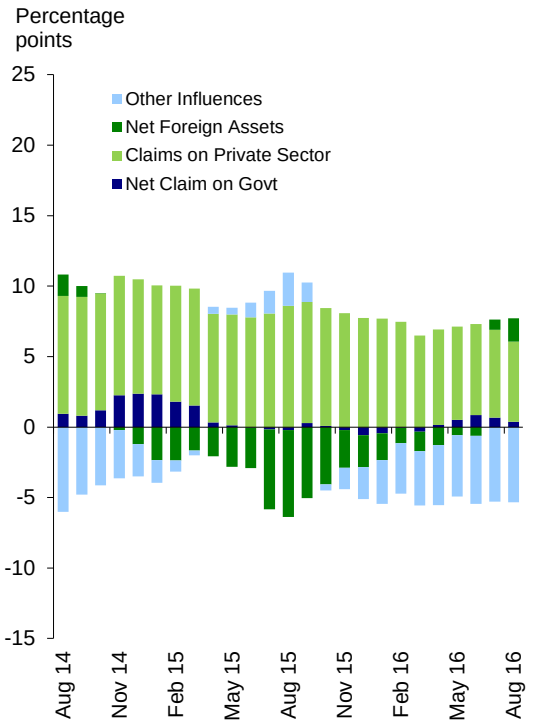
Broad money growth was sustained in August

M1 and M3



Note: From July 2015 onwards, the compilation of M3 is adjusted to exclude Islamic Investment Accounts (IA) due to a data reclassification exercise. This is reflected as a negative contribution through '*other influences*'. The dotted line represents M3 growth had this reclassification not taken place.

Main Contributors to M3 Annual Growth

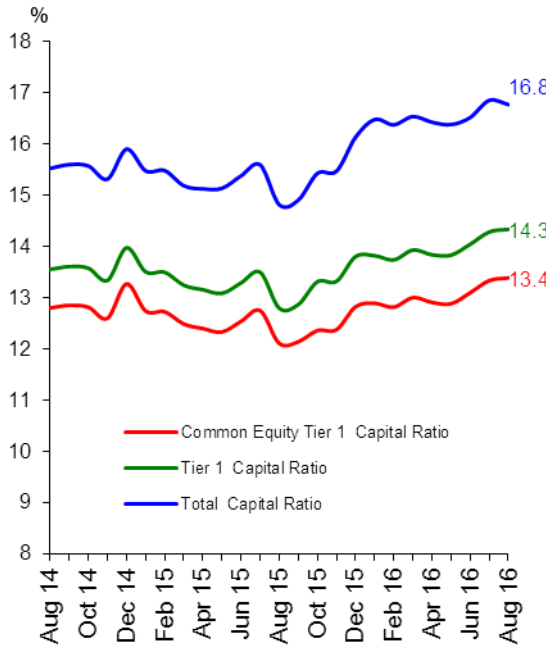


Source: Bank Negara Malaysia

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

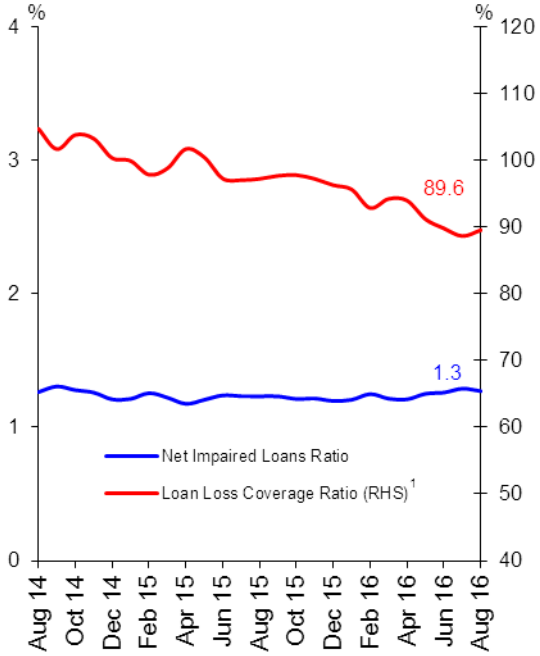
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

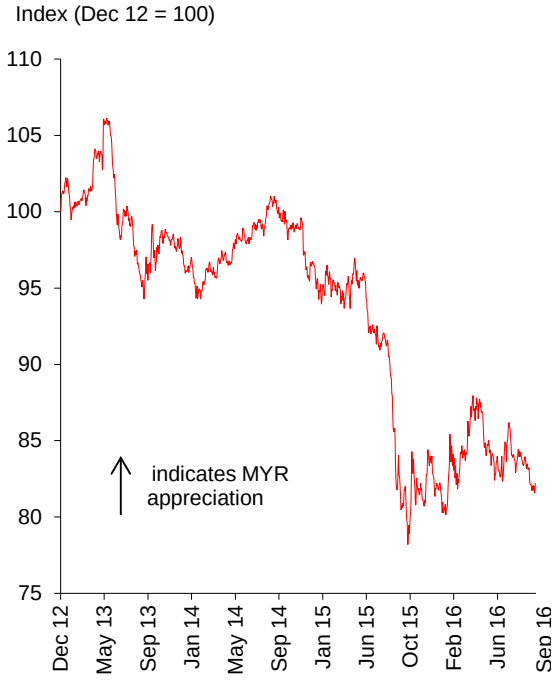


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

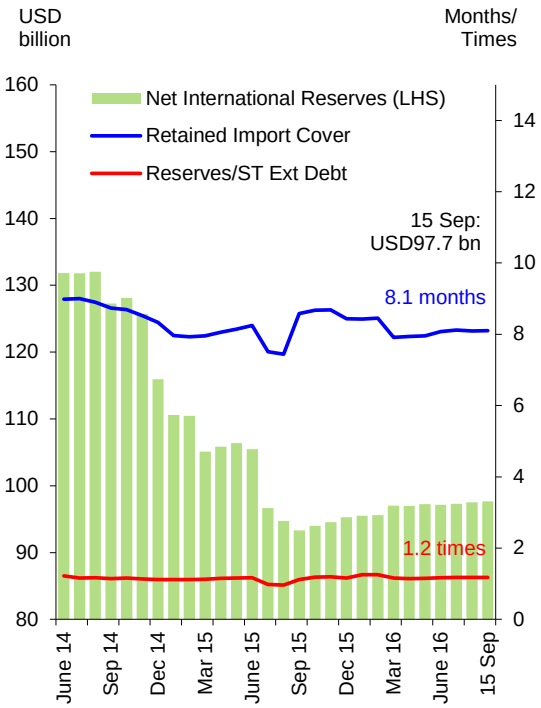
The ringgit exhibited a mixed performance against currencies of major trade partners

Index of Ringgit Performance against Major Trade Partners*



*Currencies: USD, CNY, SGD, JPY, EUR
Each currency carries equal weight
Source: Bank Negara Malaysia

Net International Reserves



Source: Bank Negara Malaysia

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

Key Monetary and Financial Statistics

		Jun 16		Jul 16		Aug 16	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		136.5	3.1	135.3	1.9	134.2	-0.4
M1		363.9	0.9	354.2	2.0	354.9	1.0
M2		1,602.9	1.8	1,586.6	2.0	1,591.7	2.3
M3		1,611.1	1.9	1,597.8	2.3	1,599.8	2.4
Banking System							
Net financing[1]		2,105.8	6.9	2,113.4	6.8	2,127.5	6.3
Loan to deposit ratio (%) [2]		87.8		88.8		89.0	
Loan to fund ratio (%) [2&3]		82.6		83.3		83.7	
Loan to fund and equity ratio (%) [2,3&4]		73.8		74.3		74.7	
Loans outstanding in RM billion		1,465.2	5.6	1,467.3	5.1	1,472.1	4.2
Loans applied (during the period)		76.2	3.9	61.2	-18.0	74.2	-1.6
Loans approved (during the period)		30.4	-21.1	26.5	-19.4	31.5	0.2
Loans disbursed (during the period)		89.6	-8.8	77.1	-11.0	82.8	-6.0
Loans repaid (during the period)		85.6	-1.9	78.4	-6.5	82.3	4.9
Banking System Health							
Total capital ratio (%) [5]		16.5		16.9		16.8	
Tier 1 capital ratio (%) [5]		14.0		14.3		14.3	
Common equity tier 1 capital ratio (%) [5]		13.1		13.3		13.4	
Net impaired loans ratio (%)		1.3		1.3		1.3	
BNM International Reserves (end-period)							
Net Reserves in RM billion		390.3		391.0		391.9	
Net Reserves in USD billion (equivalent)		97.1		97.3		97.5	
Months of retained imports		8.1		8.1		8.1	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.00		3.00	
Interbank:	Overnight	3.13 [3.18]		2.94 [2.99]		2.98 [2.93]	
	1-week	3.23 [3.23]		3.02 [3.10]		3.03 [3.02]	
	1-month	3.44 [3.30]		3.06 [3.15]		3.08 [3.08]	
Fixed deposits of commercial banks:	1-month	3.08		2.90		2.87	
	3-month	3.13		2.98		2.87	
BLR of commercial banks		6.81		6.69		6.65	
Weighted Base Rate [6]		3.83		3.62		3.60	
Weighted ALR of commercial banks		5.42		5.31		5.28	
Prices							
Consumer Price Index (CPI) (2010=100)		114.8	1.6	115.1	1.1	115.6	1.5

[1] Comprises banking system and development financial institutions (DFI) loans outstanding and corporate bond outstanding (excludes non-resident and Cagamas issuances)

[2] Deposits exclude deposits accepted from banking institutions. Loans exclude loans sold to Cagamas and loans extended to banking institutions. Beginning July 2015, loans exclude financing funded by Islamic Investment accounts

[3] Funds comprise deposits and all debt instruments (including subordinated debt, debt certificates/ sukuk issued, commercial paper and structured notes)

[4] Equity comprises ordinary and preferred shares, share premium and retained earnings

[5] Beginning January 2013, capital components are reported based on Basel III Capital Adequacy Framework

[6] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the main reference rate for new retail floating-rate loans and financing facilities. Weights are based on individuals banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my